

**REPORT OF THE AUDIT OF THE
MCLEAN COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through April 15, 2011**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MCLEAN COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period
April 16, 2010 Through April 15, 2011

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the McLean County Sheriff for the period April 16, 2010 through April 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,309,839 for the districts for 2010 taxes, retaining commissions of \$125,958 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,182,765 to the districts for 2010 taxes.

Report Comment:

2010-01 The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties Over Receipts And Reconciliations Without Documented Compensating Controls

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Kelly Thurman, McLean County Judge/Executive

Honorable Frank Cox, McLean County Sheriff

Members of the McLean County Fiscal Court

Independent Auditor's Report

We have audited the McLean County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011. This tax settlement is the responsibility of the McLean County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the McLean County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through April 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Kelly Thurman, McLean County Judge/Executive
Honorable Frank Cox, McLean County Sheriff
Members of the McLean County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties Over Receipts And Reconciliations Without Documented Compensating Controls

Respectfully submitted,

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Adam H. Edelen
Auditor of Public Accounts

December 14, 2011

MCLEAN COUNTY
FRANK COX, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through April 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 471,686	\$ 284,520	\$ 1,760,961	\$ 426,264
Tangible Personal Property	36,861	14,938	97,778	66,803
Fire Protection	491			
Franchise Taxes	47,578	20,990	136,010	
Unmined Coal - 2009 Taxes	398	233	1,438	360
Unmined Coal - 2010 Taxes	590	350	2,204	534
Oil and Gas Property Taxes	6,641	3,936	24,794	6,002
Penalties	3,960	2,343	14,743	3,632
Adjusted to Sheriff's Receipt	(93)	(53)	(341)	(91)
Gross Chargeable to Sheriff	<u>568,112</u>	<u>327,257</u>	<u>2,037,587</u>	<u>503,504</u>
<u>Credits</u>				
Exonerations	1,652	980	6,170	1,493
Discounts	7,770	4,560	28,233	7,558
Delinquent Real Estate	7,685	4,588	28,685	6,944
Delinquent Tangible	49	20	131	13
Delinquent Unmined Coal - 2009 Taxes	25	15	92	23
Delinquent Unmined Coal - 2010 Taxes	27	16	101	24
Delinquent Oil Property	278	165	1,037	251
Franchise - Uncollected	4,445	1,801	11,790	
Total Credits	<u>21,931</u>	<u>12,145</u>	<u>76,239</u>	<u>16,306</u>
Taxes Collected	546,181	315,112	1,961,348	487,198
Less: Commissions *	<u>23,213</u>	<u>13,392</u>	<u>68,647</u>	<u>20,706</u>
Taxes Due	522,968	301,720	1,892,701	466,492
Taxes Paid	522,789	301,613	1,892,033	466,330
Refunds	<u>179</u>	<u>107</u>	<u>668</u>	<u>162</u>
Due Districts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* See Next Page.

The accompanying notes are an integral part of this financial statement.

MCLEAN COUNTY
FRANK COX, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES
For The Period April 16, 2010 Through April 15, 2011
(Continued)

* Commissions:

4.25% on	\$	1,348,491
3.50% on	\$	1,961,348

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The McLean County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The McLean County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2010 through April 15, 2011.

B. Oil and Gas Property Taxes

The oil property tax assessments were levied as of January 1, 2010. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 8, 2010 through May 15, 2011.

C. 2009 Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2010. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 8, 2010 through August 15, 2010.

D. 2010 Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2011. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 20, 2011 through July 31, 2011.

Note 4. Interest Income

The McLean County Sheriff earned \$31 as interest income on 2010 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The McLean County Sheriff collected \$21,674 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of December 14, 2011, the Sheriff owed \$18 in 10% add-on fees to his fee account.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2011
(Continued)

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff's escrowed amounts were as follows:

2008	\$88
2009	\$91
2010	\$137

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kelly Thurman, McLean County Judge/Executive
Honorable Frank Cox, McLean County Sheriff
Members of the McLean County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the McLean County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, and have issued our report thereon dated December 14, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the McLean County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.




Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the McLean County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the McLean County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

December 14, 2011

COMMENT AND RECOMMENDATION

MCLEAN COUNTY
FRANK COX, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2010 Through April 15, 2011

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties Over Receipts And Reconciliations Without Documented Compensating Controls

During our review of internal controls, we noted the Sheriff's office has a lack of segregation of duties over receipts and reconciliations. The Sheriff's bookkeeper collects payments from customers, prepares deposits, prepares daily collection printouts, and posts to the receipts ledger. In addition, the Sheriff's bookkeeper prepares monthly tax reports, reconciles monthly tax reports to receipts and disbursements, and prepares the monthly bank reconciliations. The Sheriff or another individual did not document oversight of any of these activities.

Segregation of duties over collecting taxes, preparing daily deposits, preparing monthly reports, and preparing reconciliations is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The Sheriff should separate the duties of collecting taxes, preparing daily deposits, preparing reconciliations, and preparing financial reports. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties. These compensating controls should be documented.

Sheriff's Response: No Response.

